

Edgar Filing: AEW REAL ESTATE INCOME FUND - Form N-Q

AEW REAL ESTATE INCOME FUND
Form N-Q
June 20, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM N-Q
QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number: 811-21206

AEW Real Estate Income Fund

(Exact name of registrant as specified in charter)

399 Boylston Street, Boston, Massachusetts 02116

(Address of principal executive offices) (Zip code)

Coleen Downs Dinneen, Esq.
IXIS Asset Management Distributors, L.P.
399 Boylston Street
Boston, Massachusetts 02116

(Name and address of agent for service)

Registrant's telephone number, including area code: (617) 449-2810

Date of fiscal year end: January 31

Date of reporting period: April 30, 2006

ITEM I SCHEDULE OF INVESTMENTS

AEW REAL ESTATE INCOME FUND -- PORTFOLIO OF INVESTMENTS

Investments as of April 30, 2006 (Unaudited)

Shares	Description	Value (+) (b) (d)

Common Stocks	-- 91.9% of Net Assets	
	Real Estate Investment Trusts -- 91.9%	
	REITs - Apartments -- 12.3%	
44,000	Archstone-Smith Trust	\$ 2,150,720
68,000	Camden Property Trust	4,673,640
55,000	GMH Communities Trust	676,500
40,000	Mid-America Apartment Communities, Inc.	2,120,000
41,500	Municipal Mortgage & Equity LLC	1,125,065

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		-----	10,745,925	-----
	REITs - Healthcare -- 15.2%			
65,000	Health Care Property Investors, Inc.	1,782,300		
121,000	Healthcare Realty Trust, Inc.	4,582,270		
25,000	Nationwide Health Properties, Inc.	538,000		
110,000	Omega Healthcare Investors, Inc.	1,406,900		
190,500	Senior Housing Properties Trust	3,270,885		
50,000	Ventas, Inc.	1,633,500		
		-----	13,213,855	-----
	REITs - Hotels -- 3.1%			
63,000	Hospitality Properties Trust	2,715,300		
	REITs - Industrial -- 6.9%			
25,000	EastGroup Properties, Inc.	1,116,750		
62,400	First Potomac Realty Trust	1,721,616		
70,500	Liberty Property Trust	3,151,350		
		-----	5,989,716	-----
	REITs - Office -- 21.5%			
87,700	Brandywine Realty Trust, Inc.	2,482,787		
77,000	Glenborough Realty Trust, Inc.	1,613,150		
100,000	Highwoods Properties, Inc.	3,154,000		
311,300	HRPT Properties Trust	3,418,074		
43,000	Kilroy Realty Corp.	3,066,760		
70,000	Mack-Cali Realty Corp.	3,165,400		
45,500	Parkway Properties, Inc.	1,801,800		
		-----	18,701,971	-----
	REITs - Regional Malls -- 7.5%			
62,000	Glimcher Realty Trust	1,599,600		
35,000	Macerich Co. (The)	2,562,700		
150,000	Primaris Retail, 144A	2,334,422		
		-----	6,496,722	-----
	REITs - Storage -- 0.8%			
44,200	Extra Space Storage, Inc.	694,824		
	REITs - Shopping Centers -- 10.1%			
140,000	Cedar Shopping Centers, Inc.	2,065,000		
30,000	Equity One, Inc.	689,400		
94,000	Heritage Property Investment Trust	3,630,280		
39,000	Ramco-Gershenson Properties Trust	1,054,170		
40,000	Tanger Factory Outlet Centers, Inc.	1,311,200		
		-----	8,750,050	-----
	REITs - Triple Net Lease -- 14.5%			
30,600	CentraCore Properties Trust	734,400		
27,000	Entertainment Properties Trust	1,103,490		
90,000	iStar Financial, Inc.	3,443,400		
70,000	Lexington Corporate Properties Trust	1,509,200		
100,000	National Retail Properties, Inc.	2,105,000		
57,000	Realty Income Corp.	1,292,190		
96,900	Spirit Finance Corp.	1,124,040		

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Shares	Description	Value (+) (b) (d)
	REITs - Triple Net Lease - continued	
90,000	Trustreet Properties, Inc.	\$ 1,296,000

		12,607,720

	Total Common Stocks	
	(Identified Cost \$53,489,692)	79,916,083

Preferred Stocks -- 38.6%		
	Real Estate Investment Trusts -- 38.6%	
	REITs - Apartments -- 4.9%	
50,000	Apartment Investment & Management Co., Series G	1,307,500
29,400	Apartment Investment & Management Co., Series R	749,700
42,000	Apartment Investment & Management Co., Series U	1,047,060
45,000	Apartment Investment & Management Co., Series Y	1,125,000

		4,229,260

	REITs - Diversified -- 2.8%	
54,800	Crescent Real Estate Equities Co., Series B	1,391,920
43,700	Vornado Realty Trust, Series H	1,022,580

		2,414,500

	REITs - Factory Outlets -- 1.7%	
35,500	Mills Corp. (The), Series B	852,000
25,000	Mills Corp. (The), Series E	600,000

		1,452,000

	REITs - Healthcare -- 3.4%	
50,000	Health Care Property Investors, Inc., Class F	1,247,500
65,400	Omega Healthcare Investors, Inc., Series D	1,680,780

		2,928,280

	REITs - Hotels -- 6.3%	
75,000	Boykin Lodging Co., Series A	1,920,750
25,000	Felcor Lodging Trust, Inc., Series C	613,000
71,900	Hospitality Properties Trust, Series B	1,862,929
15,000	LaSalle Hotel Properties, Series A	384,300
30,000	Strategic Hotel Capital, Inc., Series B	745,500

		5,526,479

	REITs - Industrial -- 2.0%	

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70,000	Duke Realty Corp., Series M	1,716,400

	REITs - Office -- 7.2%	
30,000	Bedford Property Investors, Inc., Series A, 144A	1,458,750
100,000	CarrAmerica Realty Corp., Series E	2,530,000
90,400	HRPT Properties Trust, Series B	2,311,528

		6,300,278

	REITs - Regional Malls -- 3.5%	
75,000	Glimcher Realty Trust, Series F	1,905,000
45,000	Taubman Centers, Inc., Series H	1,125,000

		3,030,000

	REITs - Shopping Centers -- 6.5%	
27,000	Cedar Shopping Centers, Inc., Series A	716,850

 AEW REAL ESTATE INCOME FUND -- PORTFOLIO OF INVESTMENTS (continued)

Investments as of April 30, 2006 (Unaudited)

Shares	Description	Value (+) (b) (d)
	REITs - Shopping Centers - continued	
42,200	Developers Diversified Realty Corp., Series F	\$ 1,081,164
21,300	Developers Diversified Realty Corp., Series G	545,280
13,000	Federal Realty Investment Trust, Series B	329,420
6,700	Ramco-Gershenson Properties Trust, Series B	171,252
27,000	Urstadt Biddle Properties, Inc., Series C	2,848,500

		5,692,466

	REITs - Triple Net Lease -- 0.3%	
9,000	Realty Income Corp., Series D	225,000

	Total Preferred Stocks (Identified Cost \$33,408,172)	33,514,663

Principal
 Amount

 Short-Term Investment -- 0.8%

\$ 719,876 Tri-Party Repurchase Agreement

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with Fixed Income Clearing Corporation, dated 4/28/2006 at 2.95% to be repurchased at \$720,053 on 5/1/2006, collateralized by \$565,000 U.S. Treasury Bond, 8.125% due 8/15/2021 valued at \$748,826, including accrued interest (c) (Identified Cost \$719,876)	719,876 -----
Total Investments -- 131.3% (Identified Cost \$87,617,740) (a)	114,150,622 -----
Auction Rate Preferred Shares plus cumulative unpaid dividends -- (32.2)%(e)	(28,021,466)
Other Assets Less Liabilities -- 0.9%	818,942 -----
Net Assets -- 100%	\$ 86,948,098 =====

- (+) Equity securities for which market quotations are readily available are valued at market price on the basis of valuations furnished to the Fund by a pricing service which has been authorized by the Board of Trustees. The pricing service provides the last reported sale price for securities listed on an applicable securities exchange or, if no sale was reported and in the case of over-the-counter securities not so listed, the last reported bid price. Securities traded on the NASDAQ National Market are valued at the NASDAQ Official Closing Price ("NOCP"), or if lacking an NOCP, at the most recent bid quotation on the NASDAQ National Market. Debt securities for which market quotations are readily available (other than short-term obligations with a remaining maturity of less than sixty days) are generally valued at market price on the basis of valuations furnished by a pricing service authorized by the Board of Trustees, which service determines valuations for normal, institutional-size trading units of such securities using market information, transactions for comparable securities and various relationships between securities which are generally recognized by institutional traders. Short-term obligations with a remaining maturity of less than sixty days are stated at amortized cost, which approximates market value. Securities traded on a foreign exchange will be valued at their market price on the non-U.S. exchange. The value of other securities principally traded outside the United States will be computed as of the completion of substantial trading for the day on the markets on which such securities principally trade. Occasionally, events affecting the value of securities principally traded outside the United States may occur between the completion of substantial trading of such securities for the day and the close of the Exchange, which events would not be reflected in the computation of the Fund's net asset value. If, in the determination of the Board of Trustees or persons acting at their direction, events materially affecting the value of the Fund's securities occur during such period, then these securities may be fair valued at the time the Fund determines its net asset value by or pursuant to procedures approved by the Board of Trustees. When fair valuing its securities, the Fund may, among other things, use modeling tools or other processes that may take into account factors such as securities market activity and/or significant events that occur after the close of the local market and before the time the Fund's net asset value is calculated. All other securities and assets are valued at their fair value as determined in good faith by the Fund's investment advisor, pursuant to the procedures approved by the Board of Trustees. Security transactions are accounted for on trade date.

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- (a) Federal Tax Information (Amounts exclude certain adjustments made at the end of the Fund's fiscal year for tax purposes. Such adjustments are primarily due to wash sales and return of capital included in dividends received from the Fund's investments in REITs):
At April 30, 2006, the net unrealized appreciation on investments based on cost of \$87,617,740 for federal income tax purposes was as follows:

Aggregate gross unrealized appreciation for all investments in which there is an excess of value over tax cost.	\$ 27,345,712
Aggregate gross unrealized depreciation for all investments in which there is an excess of tax cost over value.	(812,830)
Net unrealized appreciation	\$ 26,532,882

- (b) The books and records of the fund are maintained in U.S. dollars. The value of securities, currencies and other assets and liabilities denominated in currencies other than U.S. dollars are translated into U.S dollars based upon foreign exchange rates prevailing at the end of the period.

AEW REAL ESTATE INCOME FUND -- PORTFOLIO OF INVESTMENTS (continued)

Investments as of April 30, 2006 (Unaudited)

- (c) The Fund, through its custodian, receives delivery of the underlying securities collateralizing repurchase agreements. It is the Fund's policy that the market value of the collateral be at least equal to 102% of the repurchase price, including interest. The Fund's investment adviser is responsible for determining that the value of the collateral is at all times at least equal to 102% of the repurchase price, including interest. The repurchase agreements are tri-party arrangements whereby the collateral is held at the custodian bank in a segregated account for the benefit of the Fund and the counterparty. Repurchase agreements could involve certain risks in the event of default or insolvency of the counterparty including possible delays or restrictions upon the Fund's ability to dispose of the underlying securities.
- (d) The Fund concentrates its investments in real estate securities, including REITs. A fund with a concentrated portfolio is vulnerable to the risks of the industry in which it invests and is subject to greater risks and market fluctuations than funds investing in a broader range of industries. Real estate securities are susceptible to the risks associated with direct ownership of real estate such as declining property values, increase in property taxes, operating expenses, interest rates or competition, zoning changes and losses from casualty and condemnation
- (e) On February 10, 2003, the Fund issued 1,120 shares of Series M AMPS with proceeds of \$28,000,000 in a public offering. Underwriting commissions and offering costs of \$601,187 (\$0.16 per common share) were incurred in connection with the offering and were charged directly to paid-in-capital of the common shares. Dividends on the AMPS are cumulative at a rate which was established at the offering of the AMPS and has been reset every seven days thereafter by an auction. The Fund pays annual fees equivalent to 0.25% of the preferred shares' liquidation value for the remarketing efforts associated with the preferred auctions.

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The AMPS are redeemable at the option of the Fund, at a redemption price equal to \$25,000 per share, plus accumulated and unpaid dividends, on any dividend payment date. The AMPS may also be subject to mandatory redemption at a redemption price equal to \$25,000 per share, plus accumulated and unpaid dividends, if the Fund defaults on its asset maintenance requirements with respect to the AMPS as defined in the Fund's By-Laws and fails to cure such a default within the time permitted. If the dividends on the AMPS shall remain unpaid in an amount equal to two full years' dividends, the holders of the AMPS as a class have the right to elect a majority of the Board of Trustees. In general, the holders of the AMPS and the common shares have equal voting rights of one vote per share, except that the holders of the AMPS, as a separate class, have the right to elect at least two members of the Board of Trustees and to vote under certain other circumstances specified in the Fund's By-Laws. The AMPS have a liquidation preference of \$25,000 per share.

REITs Real Estate Investments Trusts

144A Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers. At the period end, the value of these securities amounted to \$3,793,172 or 4.4% of net assets.

AEW REAL ESTATE INCOME FUND -- PORTFOLIO OF INVESTMENTS (continued)

Investments as of April 30, 2006 (Unaudited)

Swap Agreements. The Fund may enter into swap agreements to manage its exposure to the financial markets. A swap is an agreement to exchange the return generated by one instrument for the return generated by another instrument. The Fund may enter into interest rate, total return and forward swap spread lock swap agreements to manage its exposure to interest rates. Interest rate swap agreements involve the exchange by the Fund with another party of their respective commitments to pay or receive interest, e.g., an exchange of floating rate payments for fixed rate payments with respect to a notional amount of principal.

Swaps are marked to market daily based upon quotations from market makers and the change in value, if any, is recorded as unrealized gain or loss. Payments received or made at the end of the measurement period are recorded as realized gain or loss. These financial instruments are not actively traded on financial markets. The values assigned to these instruments are based upon the best available information and because of the uncertainty of the valuation, these values may differ significantly from the values that would have been realized had a ready market for these instruments existed, and the differences could be material. Entering into these agreements involves, to varying degrees, elements of credit, legal, market and documentation risk in excess of the amounts recognized on the Statement of Assets and Liabilities. Such risks involve the possibility that there will be no liquid market for these agreements, that the counterparty to the agreements may default on its obligation to perform or disagree as to the meaning of contractual terms in the agreements, or that there may be unfavorable changes in interest rates. A summary of the open swap agreements as of April 30, 2006 is as follows:

Notional Amount	Expiration Date	Description	Unrealized Appreciation
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Interest Rate Swaps

\$14,000,000	3/3/2008	Agreement with Bank of America dated 2/28/2003 to pay the notional amount multiplied by 3.104% and to receive the notional amount multiplied by the 1 week Floating Rate LIBOR adjusted by a specific spread.	507,343
\$ 8,400,000	3/1/2010	Agreement with Bank of America dated 2/28/2003 to pay the notional amount multiplied by 3.622% and to receive the notional amount multiplied by the 1 week Floating Rate LIBOR adjusted by a specific spread.	461,616
			----- \$968,959 =====

ITEM 2. CONTROLS AND PROCEDURES.

The registrant's principal executive officer and principal financial officer have concluded that the registrant's disclosure controls and procedures are sufficient to ensure that information required to be disclosed by the registrant in this Form N-Q was recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, based upon such officers' evaluation of these controls and procedures as of a date within 90 days of the filing date of the report.

There were no changes in the registrant's internal control over financial reporting that occurred during the registrant's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

ITEM 3. EXHIBITS

(a)(1) Certification for the principal executive officer as required by Rule 30a-2(a) of the Investment Company Act of 1940, as amended (the "Act") filed herewith.

(a)(2) Certification for the principal financial officer as required by Rule 30a-2(a) of the Act filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AEW Real Estate Income Fund

By: /s/ John T. Hailer

Name: John T. Hailer

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Title: President and Chief Executive Officer
Date: June 19, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

AEW Real Estate Income Fund

By: /s/ John T. Hailer

Name: John T. Hailer
Title: President and Chief Executive Officer
Date: June 19, 2006

By: /s/ Michael C. Kardok

Name: Michael C. Kardok
Title: Treasurer
Date: June 19, 2006